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...a sharp eye on
new laser surgery
'miracle.'

**"THE POTENTIAL
MARKET FOR THE
PROCEDURE IS
ENORMOUS."**

The Gazette, Montreal
March 21, 1995

Our Focus Makes Us A Leader

**"Researchers expect
that excimer laser
surgery will be the most
commonly performed
procedure worldwide by
the year 2000."**

**"The market is potentially
enormous. In 1994, U.S.
consumers spent about
\$13-billion on glasses and
contact lenses"**

Globe & Mail
August 7, 1996

**"FDA approves laser
surgery for eyesight."**

The Washington Post
October 24, 1995



TLC THE LASER CENTER INC.

Corporate Profile

TLC The Laser Center operates vision care clinics across North America. As of August 1, 1996, 12 clinics were in operation, with plans for 12 new locations in fiscal 1997.

TLC was established in 1993 to offer the public the most advanced technology in refractive procedures, using excimer lasers to correct common vision disorders such as nearsightedness

and astigmatism. The Company has unparalleled clinical expertise and is recognized for its leadership position within the industry. Its shares are listed on The Toronto Stock Exchange.



Denver, Colorado



Indianapolis, Indiana



London, Ontario



Madison, Wisconsin



Seattle, Washington



Vancouver, British Columbia



Windsor, Ontario



Toronto, Ontario

The Market Is Huge

Excimer laser vision correction is a safe and proven procedure, approved by the FDA.

More than 130 million Americans spend \$13 billion annually on glasses and contact lenses.

About 90 million of them suffer from nearsightedness and 90% are candidates for the refractive procedure.

If only one million people a year (less than 2% of candidates) undertake the procedure, this creates a \$4 billion annual market.

Our Focus Makes Us A Leader

TLC has an approach that differs significantly from its competitors.

About 20% of all U.S. optometrists are part of TLC's network providing the strongest, most stable conduit for business in the laser vision correction industry.

The Company emphasizes clinical expertise and is a leader in helping to refine the technology and perfect procedures.

TLC has a broad-based approach to the vision care market, encompassing secondary care facilities and managed care opportunities.

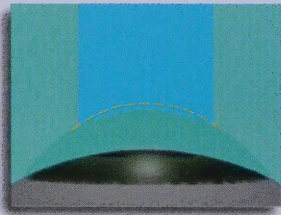


TLC THE LASER CENTER INC.

What is Laser Vision Correction?

It's a simple but sophisticated five to 10 minute out-patient procedure that uses an excimer laser to reshape the curvature of the cornea (the surface layer of the eye). The procedure is performed for the correction of nearsightedness and astigmatism. It allows many eye glass wearers to reduce their dependence on glasses or contact lenses.

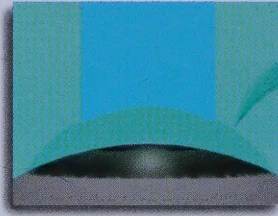
Guided by a sophisticated computer, the cool laser beam gently reshapes the cornea to match a patient's prescription, so that light can focus properly on the retina at the back of the eye. The laser is so precise that each pulse can remove 39 millionths of an inch of tissue in 12 billionths of a second. The procedure



During the PRK procedure the cool laser beam gently reshapes the cornea to match the patient's prescription.

itself is painless, and patients are typically back at work within three days.

The two primary laser vision correction methods are PRK (Photorefractive Keratectomy) and LASIK (Laser In-Situ Keratomileusis). PRK is the more common and is the best choice for mild and moderate prescriptions. LASIK allows for the most effective treatment of more severe prescriptions.



LASIK allows for the most effective treatment of more severe prescriptions.

More than one million procedures have been performed around the world in the past seven years. About 98% of typical patients achieve vision of at least 20/40 after one or more procedures. That's good enough to get a driver's licence in most states and provinces.

Glossary

Astigmatism is an irregularity in the curvature of the cornea causing a blurring of vision because of the inability of the eye to focus an image to a single point.

Cornea is the outermost surface of the eye and serves as a "window" through which light can pass.

Doctor refers to an optometrist or an ophthalmologist.

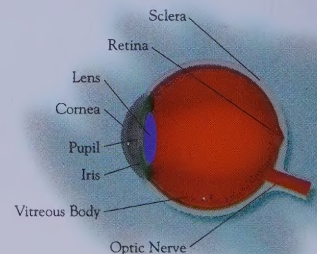
Excimer laser is a particular type of computer-controlled laser whose active medium is a high pressure mixture of noble gases and halogens. The output of this laser typically has high peak powers (between 100 and 250 millijoules per cm^2) and short pulses (10-100 nanoseconds) with a wavelength in the ultraviolet region of the spectrum (193 nm - 308 nm).

LASIK (Laser-In-Situ Keratomileusis), combining a manual procedure and an excimer laser, is generally for the correction of severe and extreme nearsightedness and astigmatism.

Managed Care refers to health care arrangements typically involving a third party, such as a Health Maintenance Organization (HMO), insurance company or employer group, which is often the payer, assuming responsibility for ensuring that health care is provided in a high quality, cost-effective manner.

PRK (Photorefractive Keratectomy), is a technique involving the use of ultraviolet light emitted by excimer lasers to treat refractive disorders which affect vision. This technique can be considered to be "optical reshaping" of the cornea in which submicron layers of tissue are removed with each laser pulse.

Refraction is the passage of light through a medium, such as the cornea, which bends its rays.

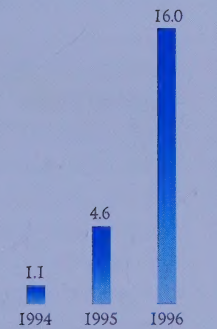


Refractive clinic is a clinic where refractive procedures are performed. These procedures may include excimer laser procedures and manual surgical procedures.

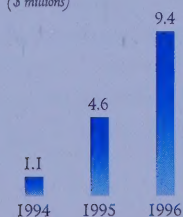
Secondary care clinic is a clinic which receives referrals to perform eye surgery, and provides advanced levels of care. A secondary care clinic does not, as a general rule, dispense eyewear or contact lenses, perform refractions, or provide eye examinations or general diagnostic services.

Highlights

		1996	1995
- Strong net revenues growth, up 104% from fiscal 1995 - Opened six new clinics - Acquired TLC Northwest Eye Inc., Seattle - Raised \$13.2 million in an initial public offering	<i>(for years ended May 31)</i> <i>(\$ millions, except per share amounts)</i>		
	Gross revenues of all managed clinics	16.0	4.6
	Net revenues	9.4	4.6
	Development expenses	2.3	1.5
	Net loss	(2.9)	(0.8)
	Loss per share	(0.23)	(0.08)
	Shareholders' equity	15.9	0.6



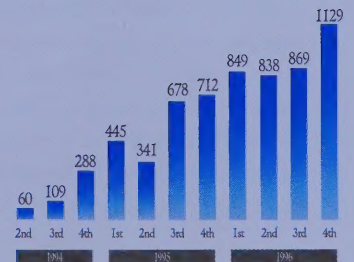
Three Year Gross Revenue of all Managed Clinics (\$ millions)



Three Year Net Revenues (\$ millions)



Three Year Asset Growth (\$ millions)



Refractive Clinic Procedures by Quarter

The Focus of Our Success

Message To The Shareholders

It has been an incredible year for TLC The Laser Center. Three years ago we set out to establish a unique organization, utilizing the latest eye care technologies with one simple goal in mind — to satisfy patients. Making our patients happy has been the focus of TLC's management from the start. We felt that if we could provide excellent clinical results for patients, business success would follow.

And it has. Our first clinic in Windsor, Ontario, which opened three years ago, has proven our clinical expertise, our superior service approach and our ability to run a profitable business. TLC Windsor is one of the most successful laser clinics in the world with fiscal 1996 revenues up 46% to \$5.5 million. The volume of patients at Windsor, and in our two other Ontario clinics in Toronto and London, continues to increase.

In fiscal 1996, gross revenues of all managed clinics rose 248% to \$16 million. TLC showed a net loss of \$2.9 million, or \$0.23 per share. Start-up costs for new clinics act as a short-term drain on earnings. It can take from 14 months to two years for volumes to reach a level where a new clinic becomes profitable. In March, the Company raised \$13.2 million in an initial public offering, listing on The Toronto Stock Exchange. Proceeds were used to acquire

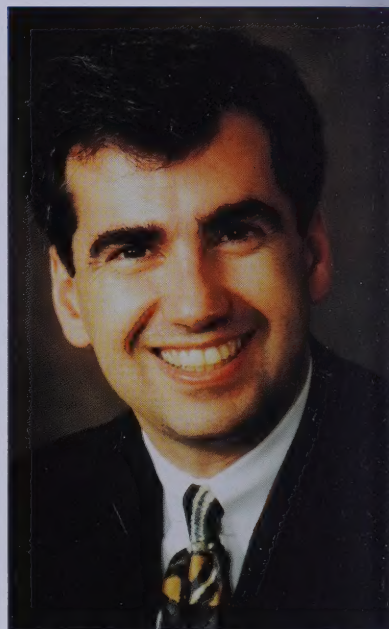
TLC Northwest Eye Inc., a secondary eye care clinic in Seattle, Washington, to repay long-term debt, and to fund expansion into the United States.

Rapid expansion in the U.S.

Following our successes in Ontario, TLC is rapidly expanding throughout North America with an approach that is unique in the industry. In fiscal 1996 we opened six new clinics — one in Canada and five in the U.S. By May 31, 1997, we expect to have opened another 14 locations, creating a TLC network of 24 clinics in 18 states and three provinces, stretching from New Brunswick to California, from British Columbia to Florida. And that's only the beginning of TLC's growth.

But it's not the speed and breadth of the new openings that will make our success. It's our careful, considered approach to creating a multi-faceted vision care business, one centered on clinical excellence and strong relationships with those who manage patient eye care — local doctors.

Under the leadership of National Medical Co-Director Dr. Jeffery Machat, TLC is recognized as an industry leader, demonstrating outstanding clinical results and playing an important research role. Dr. Machat has personally performed over 10,000 procedures and developed much of the software that directs the refractive laser



Elias Vamvakas, President and CEO.
"We are creating a multi-faceted vision care business."



procedure. He has also written an important medical textbook on the subject. In January, 1996, Dr. Steven Slade joined TLC as National Medical Co-Director. Dr. Slade, one of the most respected lammellar surgeons, teachers and educators in North America, adds another dimension to an already renowned TLC medical team.

Insistence on quality of care is the first foundation of our business plan, and the creation of a partnership between TLC and local eye care providers is the second. Many of our competitors appeal directly to the public

Success - Satisfied Patients

through radio and newspaper ads, but at TLC we have worked hard to train and educate local optometrists and ophthalmologists on the nature of laser surgery, and on the delivery of superior pre- and post-procedure patient care.

We believe that while potential patients may be stimulated by advertising, they will make decisions based on the advice of their doctor. TLC's partnership approach means that we work closely with many of these doctors. This partnership concept is a major differentiating element in our approach to the market and it has received wide acceptance. There are close to 5,000 doctors currently affiliated with TLC.

The network center concept

Interest in working with TLC has been so high that we have developed a new concept called the "network center". Network centers provide similar services to laser centers, including clinical training, patient education, marketing and network development. The major difference is that the actual procedures are performed in affiliated facilities, such as local hospital, secondary care facility or another TLC center in the region.

Network centers act as feeders, allowing more rapid market development, improving the economics of laser centers and reducing the need for large capital expenditures. Seven network centers have

already opened in fiscal 1997 and six more are under development.

Our success in establishing local networks of eye care professionals has created other opportunities. The successful purchase and integration of Seattle-based Northwest Eye provides another TLC model. TLC Northwest Eye performs cataract surgery, as well as glaucoma management and general ophthalmology, in partnership with a network of over 250 optometrists in Washington state. Our strategy is to acquire secondary care facilities in regions throughout the U.S. where TLC has established a center.

A model for managed care

The other major area of opportunity lies in managed care. Our network of eye care professionals across the U.S. provides the essential platform for delivery of eye care based on the managed care concept. To take advantage of this opportunity, TLC has established Partner Provider Health Inc. (PPH), a national managed health care organization. Based in Boston, PPH is the first company in North America to introduce joint venture and provider partnership models for eye and vision care.

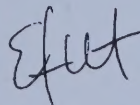
Dr. Barry Barresi, a recognized expert in managed care, was hired in June, 1996 as President and CEO of PPH, to establish it as a leader in specialty care carve-out contracting. As a TLC subsidiary, PPH will also

play a major role in providing patients for our clinics and affiliated doctors across the country.

With the pace of expansion so quick at TLC, it is critical that we remain focused on our clear and proven strategies.

Our financial situation is strong. At year-end TLC had long-term debt of \$5.8 million and cash on hand of \$4.1 million.

However, our strongest asset remains the reputation that TLC has achieved within the eye care community. TLC is known for its honesty and integrity. This has enabled us to hire, and partner with, the most respected people in the industry. People, both inside and outside TLC, are the drivers of our growth. Our commitment and strong operating philosophies will enable us to maintain our leadership position in this exciting market, and enjoy the outstanding growth opportunities available to us.



Elias Vamvakas
President and Chief Executive Officer
August 1, 1996

Our Unique Approach TLC As A Leader In This

Our Co-management System Is Based On Key Business Fundamentals.

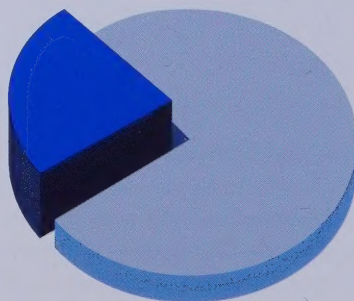
TLC takes a long-term approach to providing vision care services, one that relies on building basic relationships with local vision care professionals. Before opening a clinic, we establish a strong, local network of doctors trained in excimer laser procedures. Local doctors affiliated with TLC clinics usually comprise 50% of the directors of the clinic. To further support our clinics and doctors, our strategy is to offer total eye care services in each market by purchasing or partnering with local secondary care facilities.



Dr. Michael Orr is one of several doctors providing patient care at our clinic in Indianapolis, Indiana.

Our Large Network of TLC-affiliated Doctors Is Our Strength.

The TLC network now covers about 20% of all optometrists in North America, and it continues to expand.

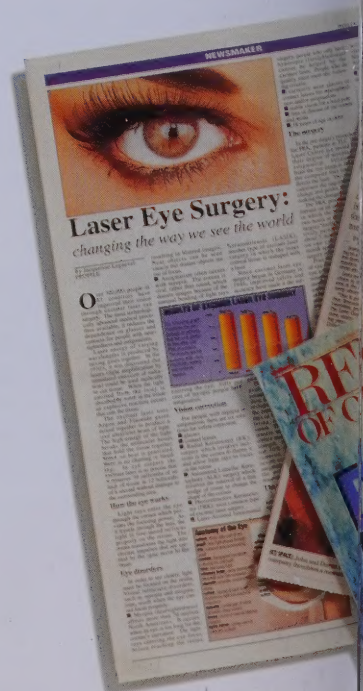


The TLC network now covers about 20% of all optometrists in North America.

These doctors are highly trained, can screen potential candidates for laser procedures, and provide post-procedure care. This partnership between TLC and local doctors ensures the highest level of care, while allowing our clinics to perform a high volume of procedures (since little pre- or post-procedure care is performed at the center). In this way, doctors can expand their practice by providing another service, rather than feeling they have simply lost a potential purchaser of glasses.

FDA Approval Opens Up The U.S. Market.

While excimer laser procedures have been performed around the world for more than seven years, the first excimer laser system was approved by the United States Food and Drug Administration only last October, opening up the U.S. market for the first time. A second laser system received approval in March. The FDA submits laser system manufacturers to stringent regulation and review. To obtain FDA approval, manufacturers must demonstrate the safety and effectiveness of excimer lasers in clinical data and in results from pre-clinical and other testing.

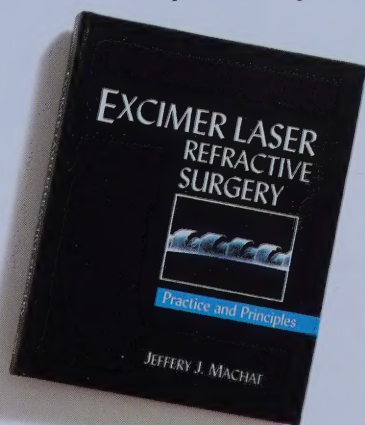


Each Is Establishing Fast-Growing Marketplace.



TLC's Dr. Jeffery Machat Wrote The Book On Refractive Procedures.

Dr. Jeffery Machat, National Medical Co-Director of TLC, is the author of "Excimer Laser Refractive Surgery, Practice and Principles", a recently-published definitive work on refractive laser procedures. Dr. Machat is one of the most experienced surgeons in



the world, having performed over 10,000 laser procedures. He has developed many of the clinical concepts and software currently in use by the largest laser system manufacturers. TLC's other National Medical Co-Director, Dr. Steven Slade, has also performed well over 10,000 non-laser refractive procedures in the U.S. and pioneered the LASIK procedure, along with Dr. Machat, which is the method of choice for correcting higher degrees of myopia.

Our Windsor Clinic Is One Of North America's Most Successful.

TLC's first refractive clinic was opened in Windsor, Ontario, just across the river from Detroit, Michigan, in September, 1993. The Windsor clinic, also serves as our main training facility, having trained over 2,000 doctors, and has been profitable since its inception. In fiscal 1996, revenues were \$5.5 million, a 46% increase over the previous year. Equipped with two excimer lasers and a staff of 17, the clinic performs about 300 procedures a month. About 94% of patients are U.S. residents. Most of Windsor's patients are referred by TLC's North American network, an indication of the network's strength.



Our Windsor clinic is one of the highest volume centers in the world.

Here's How We Are

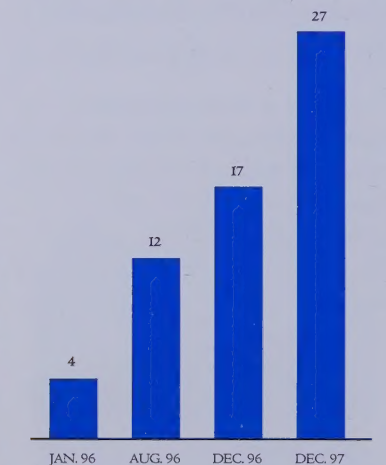
We went public on The Toronto Stock Exchange and raised \$13.2 million.

On March 25, the Company announced the closing of its initial public offering of 3.2 million common shares. The proceeds of \$13.2 million are being used for expansion into the United States and were used to fund the acquisition of Northwest Eye Center in Seattle, Washington.



TLC raised \$13.2 million on The Toronto Stock Exchange.

We're expanding quickly in 1997 and will have 15 more centers by December 31, 1997.



Most of our planned new centers will be located in the U.S.

On January 1, TLC was a private company with refractive clinics in Windsor, London and Toronto, Ontario and a clinic in Tulsa, Oklahoma which performed diagnostic and therapeutic procedures only. At August 1, 12 clinics were in full operation with another five scheduled to open by December 31. Currently, 10 are in development to open in calendar 1997.

We acquired Northwest Eye Inc., an important start in secondary care.

On March 25, TLC completed the acquisition of Northwest Eye Inc., a secondary care clinic located in Seattle, Washington with revenues under management of \$8.0 million. The acquisition was an important step in developing



Doctors at Northwest Eye in Seattle, Washington, offer a wide variety of vision care services.

TLC's approach to providing total eye care solutions for its patients. The total eye care approach allows for the maximum use to be made of TLC's assets — its expertise and reputation in excimer laser procedures and the Company's strong networks of local doctors. In May, TLC established its second full-service clinic in Greenville, South Carolina to enhance its refractive center operations in that region.

Realizing The Potential.

We are developing partnerships with the best in the health care field.

In April, TLC signed a letter of intent with Columbia/HCA North Miami Beach Surgical Center to manage its newly-opened refractive clinic in North Miami Beach, Florida. TLC will provide training and education for all doctors using the clinic. It will receive revenue from patients and doctors using the center and will pay the surgical center a facility fee. Columbia/HCA is the largest hospital chain in the U.S. In May, TLC entered into a similar agreement

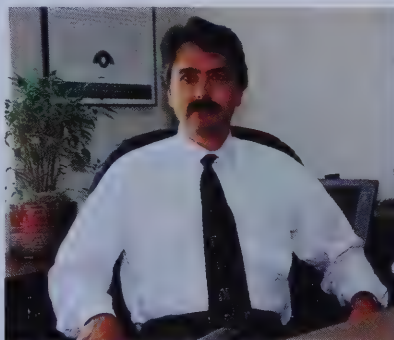


Cynthia Wike, Center Director of the Greenville, S.C. clinic, keeps local doctors informed of the latest in laser procedures and practices.

with the Johnson City Medical Center in the Tri-Cities area of northeastern Tennessee. TLC is in negotiation with several other facilities.

We are making good strides in managed care.

We believe that the future of health care lies in something called managed care and, specifically, independent provider networks. TLC, with its large base of doctors spread across North

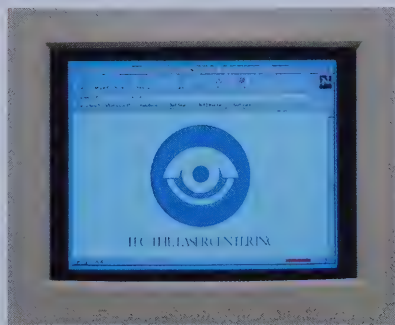


Dr. Barry Barresi is leading TLC into the managed care market.

America, will be in the forefront. The Company has hired Dr. Barry Barresi, a recognized expert in the field, to create vision care programs for managed care providers. In managed care, health care payers such as insurance companies, employer groups or health maintenance organizations (HMOs) create programs that determine the nature, cost and extent of services available to members. Dr. Barresi has become President and CEO of Partner Provider Health Inc., a subsidiary of TLC, dedicated to capturing managed care business.

We made important investments to link our centers and all TLC stakeholders.

TLC, in joint venture with ARM Group Inc. and Kelmar Corporation, has created a private, electronic North American "Eye Care Network" that will provide e-mail capabilities to doctors and clinics, allow for on-line electronic transactions and facilitate integrated purchasing. At the same time, the Company has added financial information to its worldwide website, including quarterly reports, stock price updates and all press releases. This complements an existing clinical section for patients and doctors.



TLC's investor website address is <http://www.lzn.com>

Why, What, How? And

Why would optometrists refer patients to TLC?

Because it allows the optometrists to integrate laser refractive procedures into their practice. Those patients who want the procedure done will go to a doctor or clinic that provides it, even if it means bypassing their existing primary eye care doctor. This results in unneeded and unnecessary patient attrition. The TLC co-management team approach allows the patient's own doctor to perform pre- and post-procedure care and be reimbursed for their service. This assures that each doctor is fairly compensated, and ensures the primary care doctor maintains the care for their own patients who are their nearest eye care advocate. Therefore, TLC's team approach provides the highest level of care for the patient who continues to be followed by his or her own primary care doctor.



Dr. W. David Sullins
Director

What if a better laser or newer procedure is developed?

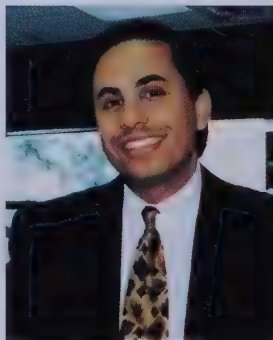
As new procedures evolve and technology is upgraded, they will be incorporated in our centers. In fact, TLC doctors have played a key role in advancing the technology and will continue to do so to sustain our clinical advantage. We are currently testing prototypes of new lasers at some of our centers. Also, TLC is not focused solely on the excimer laser. We provide refractive surgery and will always use the latest techniques to correct vision disorders. In many locations, we provide a total eye care delivery system. That's why we own secondary care practices and why we are involved in managed care.



Madeline Walker
Chief Operating Officer

Are there new procedures being developed?

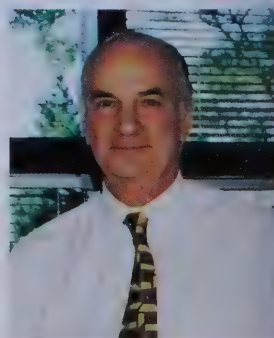
Yes! Our doctors are working to perfect third generation lasers and new software to improve on our already excellent results. Studies are also underway to perfect the correction of hyperopia (farsightedness) and with that, the ultimate elimination of the need for bifocal glasses.



Dr. Jeffery Machat
National Medical Co-Director

Is there much competition in this market?

This market may be worth \$4 billion annually, so there will be a lot of competition. Most has come from individual doctors who have purchased laser equipment and incorporated it into their practice. But the expense of the equipment and the difficulty of managing maintenance, staff and marketing have meant very few sole practitioners have been successful. Today, there are several companies trying to establish a national presence. TLC's edge comes from its years of experience, clinical expertise, network of close to 5,000 doctors in North America, and access to capital.



James R. Connacher
Director

Answers To 8 Key Questions.

What happens if a bad outcome becomes highly publicized?

RK, a form of refractive surgery, has been performed in the United States for over 25 years. It is a manual procedure, with a scalpel making incisions through 95% of the cornea. There have been some bad outcomes in RK, but this hasn't deterred people's desire to reduce their dependency on glasses and contact lenses. Despite some bad publicity, there were 250,000 RK procedures performed in the U.S. in 1993. In contrast, the newer laser-based PRK and LASIK procedures which are performed at TLC centers are directed by sophisticated equipment and software. Laser technology has brought a new level of clinical accuracy, safety and performance to the practice of correction, greatly reducing the risk and increasing the potential market.



Ronald J. Kelly
Director, and part of TLC's legal team

Why doesn't TLC advertise?

We spend the bulk of our marketing budget in the medical community to ensure that doctors are aware of our clinical leadership and our commitment to patient care.

It is our belief that patients interested in the procedure will first speak to their doctor. If doctors understand we are the best, they will refer their patients to us. Therefore, we market to train and affiliate with as many of these professionals as possible.

Our competitors have chosen to advertise directly to patients, and we are more than happy to have them increase awareness about the procedure, since the end result is having more patients referred to us.



Ruth Sagorsky
Director Patient Relations

Will the price for the procedure go down?

Although business dynamics would lead us to think that prices would drop as competition increased, it has not been our experience in Canada, despite strong competition. In its third year of operation, TLC raised prices to \$2,400 per eye for the LASIK procedure.

Regardless of pricing, the Company with the best clinical results and largest patient volume will prosper. We feel we have an edge in both of these areas.

TLC's fees will likely be in the upper quartile in all its markets, reflecting the level of care and quality we deliver. When it comes to their eyes, most people have shown that they want to deal only with the best.



Paul-Michael Hawkins
Senior Director of Marketing

How can TLC compete in the secondary care market?

The delivery of eye care services is undergoing a massive consolidation. TLC has already purchased one of the most successful secondary care clinics in the U.S. and is in discussion with others. TLC's situation is unique, because unlike companies that simply offer administrative systems and volume purchase discounts, we also bring expertise in new technology and a large network of referring doctors. Practices acquired by, or integrated with, TLC can grow through the laser centers and referrals.



Dr. David C. Eldridge
Director

TLC THE LASER CENTER INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

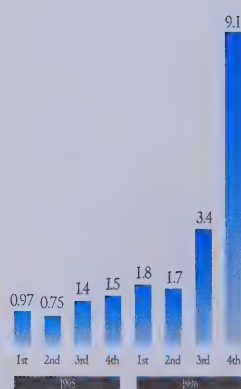
The following discussion is to be read in conjunction with the consolidated financial statements.

NATURE OF BUSINESS

TLC The Laser Center Inc. (the "Company" or "TLC") was incorporated on May 28, 1993 to develop and operate refractive clinics in North America using excimer lasers to correct common refractive vision disorders such as nearsightedness and astigmatism. Refractive disorders result when the curvature of the cornea is not correct, preventing it from properly focusing light to create a clear image. Excimer laser procedures are outpatient procedures which are designed to reshape the outer layers of the cornea to change its curvature to reduce or eliminate a patient's reliance on corrective eyewear. Both Photorefractive Keratotomy (PRK) and Laser In-Situ Keratomileusis (LASIK) are performed in TLC's Ontario clinics. PRK is the primary laser vision correction method for mild and moderate prescriptions. LASIK allows for the treatment of more severe prescriptions. Each clinic provides excimer laser equipment and related support services to doctors who perform excimer laser procedures on the premises.

The Company currently operates these refractive clinics through individual subsidiaries in both Canada and the U.S. In late fiscal 1996, the Company added to its three existing Canadian refractive clinics by opening a clinic in Vancouver, British Columbia. In late fiscal 1996, the Company also opened four refractive clinics in the United States, located in Seattle, Washington; Greenville, South Carolina; Denver, Colorado; and Indianapolis, Indiana; and equipped the existing Tulsa, Oklahoma clinic with an excimer laser. The U.S. market for PRK was broadened when the U.S. Food and Drug Administration (FDA) approved the VISX excimer laser for PRK in March, 1996.

In the course of developing its refractive clinics in the U.S. and the network of local doctors affiliated with them, the Company has identified opportunities to acquire established secondary eye care clinics to be incorporated within its networks of affiliated doctors. Secondary care clinics offer treatment for a range of vision disorders including cataracts, glaucoma and retinal disorders. Effective January 1, 1996, the Company began managing the operations of TLC Northwest Eye Inc. (formerly Eye Surgeons Northwest, P.C.), a secondary care clinic in Seattle, Washington, pursuant to a management agreement. On March 25, 1996, the Company acquired 100% of the common shares of TLC Northwest Eye Inc.



Gross Revenues of all Managed
Clinics By Quarter
(\$ millions)

RESULTS OF OPERATIONS

The Company concluded its 1996 fiscal year with gross revenues of all managed clinics of \$16.0 million compared to \$4.6 million in 1995. The fourth quarter of 1996 had gross revenues of all managed clinics of \$9.1 million, a 507% increase over the \$1.5 million in the fourth quarter of 1995 and a 168% increase from \$3.4 million in the third quarter in 1996.

In 1996, TLC revenues were derived primarily from two sources: operation of three refractive clinics in Ontario, and TLC Northwest Eye.

The increase in 1996 gross revenues of all managed clinics was attributable to TLC Northwest Eye, which provided \$8.0 million of this amount in the period from January 1 to year-end; the increase in the number of procedures performed in TLC's three Ontario refractive clinics in each quarter of 1996; combined with a price increase of \$200 for the LASIK procedure raising the price to \$2,400 commencing in November 1995. Together, these factors contributed to a \$3.4 million or 74% increase in revenues derived from the refractive clinics, principally the three located in Ontario.

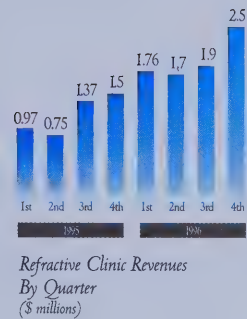
The Company's Windsor, Ontario clinic, now beginning its third full year of operation, continues to show substantial increases in both revenues and profitability. Revenues increased by 46.4% to \$5.5 million in Windsor in fiscal 1996. The Windsor clinic is strategically located near the United States border and derived 94% of its patients from the U.S in 1996. The FDA approval of the VISX excimer laser for PRK in late March, 1996 has not had an adverse effect on the Windsor clinic's volume.

The Toronto, Ontario clinic, which completed its first full year of operation, continues to show substantial monthly increases in revenues and is now profitable in a very competitive market with 94% of its patients from the Greater Toronto Area. Revenues increased by 478% to \$1.3 million compared to fiscal 1995, when the Toronto clinic operated for only five months. It has experienced a steady increase in procedures performed and has been profitable since February 1996, its 14th month of operation.

The London, Ontario clinic, which also completed its first full year of operation, had level quarterly results and showed a profit in the last month of fiscal 1996. Revenues increased to \$1.1 million from \$604,000 in 1995 when the clinic was in operation for only six months. The London clinic had a net loss after interest and amortization. The London clinic is located in the smallest population market of any TLC center with less than 400,000 individuals in the London, Ontario area. It is anticipated that it will be profitable in fiscal 1997.

The Vancouver, B.C. clinic is a 50% joint venture of TLC. It was opened in May 1996 with no procedures occurring until after fiscal year-end. TLC's 50% share of start-up costs to year-end was \$178,000 and is included in loss of affiliated corporations.

The U.S. refractive clinics were opened just prior to fiscal year-end and had immaterial revenue.



Operating Expenses

Operating expenses increased to \$8.5 million from \$3.4 million in fiscal 1995. This increase resulted from a full year's operation of the Toronto and London clinics, as well as operating expenses for TLC Northwest Eye and the Tulsa clinic, neither of which were part of the Company in 1995. The increase is also a result of the costs of a substantial increase in the number of procedures performed.

Interest and Amortization

Interest and amortization increased to \$1.2 million in 1996 from \$505,000 in 1995 as a result of a full year of operations at Toronto and London clinics compared to only partial years in 1995. The Tulsa clinic and TLC Northwest Eye also incurred amortization expenses in 1996.

Development and Start-up Expenses

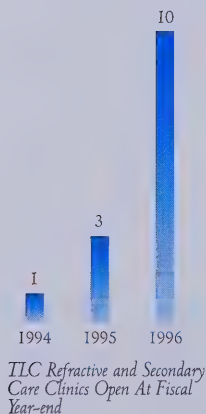
In fiscal 1996, development costs increased as TLC substantially stepped up its development program. However, a corporate shared fee of \$1.8 million from the Windsor clinic reduced the net development expense and start-up costs to \$2.3 million in 1996 as compared to \$1.5 million in 1995. Development costs include certain staff wages and benefits, travel and accommodations, business entertainment and various other administrative expenses incurred in the process of developing the working relationships with local doctors which are central to TLC's growth strategy. The Company's development plan typically requires that 50 to 250 local doctors form a working relationship with TLC in an area before a clinic is opened in that region. Management believes that the financial potential of the procedure and technology in general will create a large number of competitors. Regardless of this competition, management expects that a minimum base of network doctors who refer and co-manage patients, will provide TLC with adequate volume and insure its financial success. TLC has increased its network of eye care providers to close to 5,000 across the U.S., an essential ingredient to enable TLC to capture a significant share in the total eye care delivery market. Also, although the Seattle, Greenville and Denver clinics began performing procedures only toward the end of fiscal 1996, their start-up expenses of \$784,000 were included in TLC's consolidated operations for the fiscal 1996 year. It is the Company's policy to expense and not to capitalize all costs of the start-up incurred during the period prior to the commencement of operations.

As of year-end, nine additional clinics were under construction and eight others were being developed.

Income Taxes - Canada and the U.S.

Current income taxes recorded in 1996 amounted to \$105,000, compared to \$45,000 in 1995. Deferred income taxes recovery of \$129,000 were recorded in 1996 with a resulting net income tax recovery of \$24,000. In Canada, each subsidiary operating a refractive clinic is taxed separately under federal and provincial laws. The Toronto clinic had losses carried forward to offset against the current year's income. The London and Vancouver clinics had losses and therefore incurred no corporate income taxes. The Windsor clinic was profitable and had no losses carried forward and therefore must pay Federal and Ontario income taxes.

TLC eliminated any U.S. federal or state income tax by filing a consolidated tax return of all start-up laser refractive clinics in the U.S., which experienced losses, with TLC Northwest Eye, which had income, as permitted under the U.S. tax laws. Only the clinic located in Indianapolis, Indiana did not qualify for this treatment.



Net Loss for the Year

The Company recorded a loss of \$1.5 million in the fourth quarter and \$2.9 million in fiscal 1996, compared to a loss in fiscal 1995 of \$836,000. This increased loss was the result of start-up expenses for clinics in Seattle, Vancouver, Indianapolis, Greenville, and Denver, all of which opened in the fourth quarter, as well as costs incurred in the development of clinics to be opened in fiscal 1997.

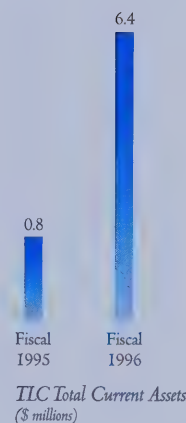
FINANCIAL CONDITION

Liquidity and Capital Resources

TLC ended 1996 in a strong financial position, with a current ratio of 1.6:1 compared to 0.7:1 in 1995. Working capital increased to \$2.4 million from a deficiency of \$292,000 at the end of the prior year, due primarily to the net proceeds of the Company's initial public offering (IPO) of common shares on March 25, 1996.

Current assets increased substantially during 1996 as illustrated in the following table.

(\$ thousands)	1996	1995
Current Assets	\$	\$
Cash	4,143	579
Accounts Receivable	1,715	74
Prepays and sundry assets	529	107
Total Current Assets	6,387	760



At year-end, cash and short term investments totaled \$4.1 million, an increase of \$3.6 million from 1995. Cash utilized by operations amounted to \$1.7 million (in 1995 - \$492,000) while net proceeds from the IPO were used to repay an equipment loan of \$700,000, for the acquisition of TLC Northwest Eye Inc. in the amount of \$4.1 million, and for the purchase of other capital assets. The net increase in cash and short-term investments during 1996 was \$3.6 million compared to \$444,000 in 1995.

Accounts receivable rose by \$1.6 million. The increase is principally attributed to management fees receivable from Northwest Eye Surgeons, Inc. in the amount of \$1.2 million. Payment for the laser vision correction procedures performed at TLC's refractive clinics is primarily on a cash basis and therefore does not give rise to significant accounts receivable.

Prepays and sundry assets include prepaid insurance, artwork and medical supplies for TLC Northwest Eye and increased to \$529,000 in 1996 from \$107,000 in 1995.

TLC's liquid assets were more than adequate to meet its daily cash requirements in 1996. This liquidity is expected to continue through fiscal 1997.

Foreign Exchange

The Company's revenue is derived approximately 81% in U.S. dollars and 19% in Canadian dollars.

Expenses are incurred in the local currency of the two countries in which the Company operates, the U.S. and Canada. The Windsor clinic received \$5.2 million or 94% of its revenue

in U.S. dollars in fiscal 1996. The net income generated at the Windsor clinic allows U.S. dollars to be available to fund development and expansion in the United States. The Company does not presently use any formal hedging techniques due to the natural hedge which results from having operations in both Canada and the U.S. Certain conditions in purchase and sale agreements also minimize exchange rate risks within the countries.

Capital Expenditures

Net capital spending totaled \$15.9 million in 1996. This included expenditures on leasehold improvements and purchase of medical equipment including excimer lasers and office equipment to furnish the four new refractive clinics opened in the U.S. In addition, the Company invested in the acquisition of TLC Northwest Eye. These expenditures were funded through the initial public offering of common shares and debt financing of the four new refractive clinics by GE Medical Systems.

The Company plans to spend approximately \$19 million on capital projects during fiscal 1997, the majority of which will be related to leasehold improvements and purchases of medical and office equipment in opening 12 new refractive clinics in the U.S. This new investment will be funded from existing cash reserves, funds from operations and debt financing commitments from GE Medical Systems and Hillside Finance.

Dividends

No dividends were paid during 1996. The Company does not presently foresee the payment of dividends and plans to use its income to finance its growth.

RISKS

Competitive Environment

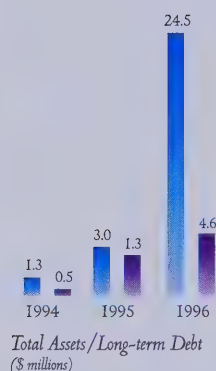
TLC competes with hospitals, individual ophthalmologists, other laser clinics, and certain manufacturers of excimer laser equipment in offering excimer laser procedures. A number of companies have been formed in the U.S. and Canada to develop networks of excimer laser centers. TLC differentiates itself from its competitors through a strategy which focuses on providing a wide range of vision care services to patients; creating networks of affiliated local doctors; and providing a high level of clinical knowledge and expertise.

Regulatory Changes

Changes in existing regulatory requirements or the adoption of new requirements could adversely affect TLC's results. Currently, no regulatory changes that would be significantly detrimental to TLC's business are foreseen.

New Products and Technological Change

Modern medical technology is characterized by extensive research and rapid technological change. Newer technologies will likely be developed with better performance than the excimer laser equipment currently used by the Company. Medical companies, academic and research institutions and others could develop more medically effective and less expensive therapies, including



new medical devices or surgical procedures, for the conditions targeted by the Company. In addition, competitors may develop procedures that involve lower per procedure cost. TLC intends to upgrade its excimer laser equipment, acquire new medical devices or adopt new procedures as any significantly advanced technology is developed. National Medical Co-Director, Dr. Jeffrey J. Machat, has developed many of the current techniques and software used to perform this procedure and continues to work with major manufacturers in the design and improvement of this emerging technology.

Dependence on Relationships with Manufacturers of Excimer Lasers

TLC is dependent on third party manufacturers of the excimer laser equipment used in the Company's refractive clinics, in addition to parts and service related to the equipment. TLC competes with other service providers for the purchase of available excimer lasers and manufacturers may decide to sell excimer lasers to companies other than TLC. The Company has placed an order for 10 VISX Star Excimer Lasers from VISX of California. The Company currently has installed VISX lasers in Tulsa, Seattle, Greenville S.C., Denver and San Bernardino, California where a refractive clinic was opened by the Company following the year-end. The Company anticipates receiving the balance of its order within six months of its year-end. The Company has yet to experience any delay in the shipment, setup or training of the VISX Star Excimer Laser. The Company has, and anticipates maintaining, an excellent working relationship with VISX.

OUTLOOK

TLC expects the market for refractive laser procedures to continue to expand rapidly over the next year. The Company's revenues are expected to increase significantly, a consequence of the maturing of 10 existing clinics, and the planned opening of 17 new clinics by December 31, 1997.

The Company's experience has been that it can take anywhere from 14 months to two years for a clinic to become profitable. The rapid expansion of TLC's network of clinics will continue to act as a short-term drain on earnings, although this effect should decrease as the number of mature clinics increases in proportion to newly-opened centers.

AUDITORS' REPORT

To the Shareholders of
TLC The Laser Center Inc.

We have audited the consolidated balance sheet of TLC The Laser Center Inc. as at May 31, 1996 and 1995 and the consolidated statements of income, deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Orenstein & Partners

Chartered Accountants
Toronto, Canada
July 25, 1996

TLC THE LASER CENTER INC.
CONSOLIDATED STATEMENT OF INCOME

For the year-ended May 31, 1996

<i>(\$ thousands except per share amounts)</i>	Notes	1996	1995
		\$	\$
Net revenues	9	9,363	4,592
Share of loss of affiliated companies	4	(241)	-
		9,122	4,592
Expenses			
Operating		8,531	3,372
Interest and bank charges		227	89
Interest on capital leases		89	72
Amortization			
Capital assets		578	175
Assets under capital lease		297	169
		9,722	3,877
INCOME (LOSS) FROM OPERATIONS		(600)	715
Start-up expenses	10	784	-
Development expenses	11	1,524	1,506
		2,308	1,506
LOSS BEFORE INCOME TAXES		(2,908)	(791)
Income taxes	14		
Current		105	45
Deferred		(129)	-
		(24)	45
NET LOSS FOR THE YEAR		(2,884)	(836)
LOSS PER SHARE		(0.23)	(0.08)
Weighted average number of common shares outstanding		12,796,579	10,134,078

See the accompanying notes

TLC THE LASER CENTER INC.
CONSOLIDATED STATEMENT OF DEFICIT

For the year-ended May 31, 1996

<i>(\$ thousands)</i>	1996	1995
	\$	\$
Balance, beginning of year	(857)	(21)
Net loss for the year	(2,884)	(836)
Balance, end of year	(3,741)	(857)

See the accompanying notes

TLC THE LASER CENTER INC.
CONSOLIDATED BALANCE SHEET

May 31, 1996

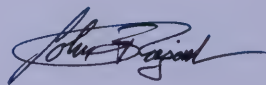
(\$ thousands)	Notes	1996	1995
		\$	\$
Assets			
Current			
Cash		4,143	579
Accounts receivable		1,715	74
Prepays and sundry assets		529	107
		6,387	760
Capital assets	2	16,026	1,368
Assets under capital lease	3	1,046	672
Investments in affiliated companies	4	259	-
Projects under development		595	67
Deferred income taxes		105	-
Other		88	86
		24,506	2,953
Liabilities			
Current			
Accounts payable and accrued liabilities		2,523	584
Current portion of long-term debt		900	200
Current portion of obligation under capital lease		308	228
Current portion of term bank loan		40	40
Income taxes payable		107	-
Deferred income taxes		97	-
		3,975	1,052
Long-term debt	5	3,529	755
Obligations under capital lease	6	931	440
Term bank loan	7	63	103
Deferred rent		88	-
		8,586	2,350
Shareholders' Equity			
Capital stock	8	19,661	1,460
Deficit		(3,741)	(857)
		15,920	603
		24,506	2,953

See the accompanying notes

Approved on behalf of the Board:



Elias Vamvakas, Director



John F. Riegert, Director

TLC THE LASER CENTER INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year-ended May 31, 1996

(\$ thousands)	1996	1995
	\$	\$
Operating activities		
Net loss for the year	(2,884)	(836)
Items not affecting cash		
Amortization	875	344
Amortization included in start-up expenses	155	-
Share of loss from affiliated companies	241	-
Deferred income taxes (net)	(129)	-
	(1,742)	(492)
Changes in non-cash operating items		
Accounts receivable	(1,641)	42
Prepays and sundry assets	(422)	(56)
Accounts payable and accrued liabilities	1,939	456
Income taxes payable (net)	63	(40)
Deferred rent	88	-
	(1,715)	(90)
Financing activities		
Due to shareholders	-	(160)
Long-term debt	3,474	955
Term bank loan	(40)	(40)
Obligations under capital lease	571	(161)
Capital stock issued	18,201	1,460
	22,206	2,054
Investing activities		
Capital assets (see below)	(15,328)	(1,367)
Assets under capital lease	(569)	(3)
Investment in affiliated companies	(500)	-
Projects under development	(528)	(67)
Other	(2)	(83)
	(16,927)	(1,520)
Increase in cash	3,564	444
Cash, beginning of year	579	135
Cash, end of year	4,143	579

Net change in capital assets has been adjusted to reflect deferred tax liability of \$121,000 and income taxes payable of \$44,000.

See the accompanying notes

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

The Company develops and operates refractive clinics in North America that use excimer lasers to correct common refractive disorders. Each clinic provides excimer laser equipment and related support services to doctors who perform excimer laser procedures on the premises. The Company also provides management services to secondary eye care clinics, which offer treatment for a range of vision disorders.

The Company is traded publicly on The Toronto Stock Exchange under the symbol LZR.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, which have been prepared in accordance with generally accepted accounting principles, reflect the accounting policies set out below.

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries. Intercompany transactions and balances have been eliminated.

Capital assets and assets under capital lease

Capital assets and assets under capital lease are carried at cost less accumulated amortization. Amortization is provided for at rates intended to write off the assets over their productive lives as follows:

Computer equipment and software	- straight line over three years
Furniture, fixtures and equipment	- 20% diminishing balance
Laser equipment	- 20% diminishing balance
Leasehold improvements	- straight line over the initial term of the lease
Management service agreement	- straight line over 15 years
Medical equipment	- 20% diminishing balance
Vehicle	- 30% diminishing balance

For assets acquired or brought into use during the year, amortization is calculated at half the normal rate.

Management service agreement represents the cost of obtaining the exclusive right to operate the Company's secondary care clinic in affiliation with the related physician group.

Investments in affiliated companies

The Company accounts for its investments in affiliated companies by the equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Company's share of the affiliated companies' net income or loss for its fiscal year. Dividends received from the affiliated companies are accounted for as a reduction of its investment.

Projects under development

For projects under development, the Company capitalizes all initial expenditures until the project has entered into a lease agreement for premises.

Deferred income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, deferred income taxes result from the recording of certain income or expenses for accounting purposes in periods other than those in which they are reported for income tax purposes.

Revenues

It is the policy of the Company to include in income only those operating revenues pertaining to owned laser clinics and fees earned from managing secondary care clinics. Under the terms of the practice management agreement, the Company is providing management, marketing and administrative services to the TLC Northwest Eye in return for management fees.

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

1996

1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currency translation

Foreign currency transactions are translated using the temporal method. Under this method, monetary assets and liabilities as well as non-monetary items carried at market value are translated at year-end exchange rates. Other non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Revenues and expenses are translated at average rates prevailing during the year.

Gains or losses resulting from exchange translation are included in the statement of income.

2. CAPITAL ASSETS

	\$	\$
Computer equipment and software	385	142
Deposit on laser equipment	658	-
Furniture, fixtures and equipment	1,155	265
Laser equipment	1,120	1,000
Leasehold improvements	2,476	131
Management service agreement (see below)	9,031	-
Medical equipment	2,209	23
Vehicle	21	-
	<u>17,055</u>	<u>1,561</u>
Accumulated amortization	<u>1,029</u>	<u>193</u>
	16,026	1,368

Effective March 25, 1996, the Company acquired 100% of the common shares of TLC Northwest Eye Inc. (formerly Eye Surgeons Northwest, P.C.). TLC Northwest Eye Inc. manages a secondary care clinic located in Seattle, Washington. The total cost of the acquisition was allocated to the net assets acquired on the basis of their book values. The acquisition was financed through a combination of cash and the issuance of common shares (see note 8).

The total cost of the acquisition was allocated to the net assets acquired as follows:

	\$
Current assets	1,734
Capital assets	2,258
Management service agreement (to be amortized over 15 years)	9,031
Other assets	116
<u>Total assets</u>	<u>13,139</u>
Current liabilities	751
Long-term debt	2,107
Other liabilities	81
Deferred taxes	238
<u>Total liabilities</u>	<u>3,177</u>
Total cost of the acquisition	9,962

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)	1996	1995
3. ASSETS UNDER CAPITAL LEASE		
	\$	\$
Computer equipment	17	16
Furniture, fixtures and equipment	90	90
Laser equipment	1,278	710
Medical equipment	119	119
	<u>1,504</u>	<u>935</u>
Accumulated amortization	458	263
	<u>1,046</u>	<u>672</u>
4. INVESTMENTS IN AFFILIATED COMPANIES		
	\$	\$
TLC West Inc. (50%)		
Advances	253	-
Equity in undistributed loss since acquisition	(178)	-
	<u>75</u>	<u>-</u>
TLC Indiana Laser Center Inc. (50%)		
Advances	247	-
Equity in undistributed loss since acquisition	(63)	-
	<u>184</u>	<u>-</u>
	<u>259</u>	<u>-</u>

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

5. LONG-TERM DEBT

	1996	1995
	\$	\$
General Electric Medical Systems		
Interest at 9.75%, plus 3% of monthly gross revenue until the internal rate of return equals 18%, due February 2001, secured by equipment, denominated in US\$ and converted at year-end rate.	1,754	-
U.S. Bank of Washington		
Interest at prime plus 0.25% (8.5% at May 31, 1996), secured by equipment, due July 2002, denominated in US\$ and converted at year-end rate.	1,693	-
Chiron Vision		
Interest at 7% (see below), secured by laser equipment, due December 1999.	633	955
U.S. Bank of Washington		
Interest at prime plus 0.85% (9.1% at May 31, 1996), secured by equipment, due December 2002, denominated in US\$ and converted at year-end rate.	255	-
Private Individual		
Interest at 8.0%, due January 1997, denominated in US\$ and converted at year-end rate.	94	-
	4,429	955
Less current portion	900	200
	3,529	755

The Chiron Vision loan agreement provides for additional monthly payments on principal based on a percentage of gross revenues generated by the laser in excess of the minimum monthly payments.

Aggregate minimum repayments of principal for each of the next five years are as follows:

	\$
1997	900
1998	863
1999	926
2000	827
2001	655

6. OBLIGATIONS UNDER CAPITAL LEASE

	\$	\$
DVI Capital		
Interest at 11.8%, due February 2001, denominated in US\$ and converted at year-end rate.	730	-
United States Leasing International		
Interest at 9%, due October 1998, denominated in US\$ and converted at year-end rate.	454	597
Healthgroup Financial		
Interest at 13.9%, due August 1998.	55	71
	1,239	668
Less current portion	308	228
	931	440

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

1996

1995

Repayments of capital lease obligations including interest are as follows:

	\$
1997	416
1998	434
1999	308
2000	206
2001	154
	<u>1,518</u>
Less interest portion	<u>279</u>
	<u>1,239</u>

7. TERM BANK LOAN

The term bank loan represents a small business improvement loan, payable in sixty (60) monthly payments of \$3,333 principal plus interest as follows:

- to December 20, 1995, bank prime rate plus 1%
- thereafter, bank prime rate plus 1.75%

The loan is secured by a general security agreement, a \$50,000 security deposit, personal guarantees and a chattel mortgage belonging to a director of the Company.

Although this loan is due on demand, based on regular terms of repayment it is properly classified as long-term.

Principal repayments are due as follows:

	\$
1997	40
1998	40
1999	<u>23</u>
	<u>103</u>

8. CAPITAL STOCK

	\$	\$
Common - authorized, unlimited shares; issued, 16,589,053 (1995 - 10,916,551) shares	19,661	1,460
	<u>19,661</u>	<u>1,460</u>

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

1996

1995

8. CAPITAL STOCK (cont'd)

During the year, the following additional shares were issued:

- 501,973 common shares for \$1,254,347
- 478,874 common shares as part of the Employee Stock Option Plan
- 3,200,000 common shares as part of the Company's Initial Public Offering (IPO) for net proceeds of \$10,802,241
- 1,388,889 common shares as part of the acquisition of TLC Northwest Eye Inc. for \$5,708,367
- 31,201 common shares as compensation warrants to agents of the IPO for \$141,060
- 71,565 common shares as over-allotment options to an agent of the IPO for \$294,109

The Company has the following options outstanding:

- an agreement with a director of TLC The Laser Center (Delaware) Inc. to purchase 1,000,000 common shares at a price of \$2.50 per share, expiring June 30, 2000. If this option is exercised, the Company has an option to purchase 50% of the individual's business for US\$1,000,000.
- an option for an employee of the Company to purchase 20,000 common shares at \$1.50 per share, expiring November 1, 1999.
- options for various employees of the Company to purchase a total of 135,353 common shares at US\$3.00 per share, expiring February 12, 2001.
- an option for the President and Chief Executive Officer to purchase 608,273 common shares at US\$3.00 per share, expiring January 1, 2001 to January 1, 2004.
- Pursuant to Agency Agreements dated March 5, 1996, the Company has granted non-assignable warrants to Agents to purchase up to 327,155 common shares at US\$3.30 per share. The warrants are exercisable within 24 months after March 25, 1996, the date of closing of the Company's initial public offering. At May 31, 1996, 31,201 warrants were exercised leaving a balance of 295,954. Subsequent to the year-end, a further 132,973 warrants have been exercised leaving a balance of 162,981 still outstanding.

9. NET REVENUES

Net revenues consist of revenues from owned laser clinics and revenues from the secondary care clinic which are recorded at established rates reduced by contractual adjustments, allowances and amounts retained by physician group. Contractual adjustments arise due to the terms of certain reimbursement and managed care contracts. Such adjustments represent the difference between fees at established rates and estimated recoverable amounts and are recognized in the period the services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are reported as contractual adjustments in the year final settlements are made.

The following represents amounts included in the determination of net revenues:

	\$	\$
Gross revenues of all managed clinics		
Refractive clinics revenue	7,976	4,592
Secondary care clinics physician group revenue	8,030	-
	16,006	4,592
Less		
Provision for contractual adjustments, allowances	3,282	-
Amounts retained by physician group	3,361	-
	6,643	-
Net revenues	9,363	4,592

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

1996

1995

10. START-UP EXPENSES

Start-up expenses represent costs incurred during the period prior to the commencement of commercial operations of the refractive centers. These expenses include salaries and benefits paid to employees, promotional activities, consumable goods used during the period prior to opening and amortization of capital assets.

11. DEVELOPMENT EXPENSES

Development expenses, which represent costs incurred in the research and development of potential refractive centers in North America, are as follows:

	\$	\$
Advertising and promotion	65	147
Education consulting	100	117
Professional fees	643	432
Salaries and benefits	577	593
Software	45	31
Travel and accommodation	94	186
	<u>1,524</u>	<u>1,506</u>

12. CONTINGENT LIABILITIES

- Based on recent government pronouncements, the Company has a potential tax liability of \$200,000 plus interest. To date the Company has not received any notice of assessment. If an assessment is received, the Company will appeal.
- The Company has banking facilities of approximately \$950,000 available for posting letters of guarantee, whereby the Company must maintain a similar minimum amount in its bank accounts. To date, approximately \$300,000 of this facility has been utilized.
- The Company has been advised of potential liability for patent violations which may be associated with its laser equipment. No litigation has been commenced and accordingly no reserves have been provided in the accounts.

13. COMMITMENTS

Future operating lease payments

The Company has entered into operating leases for rental of office space and equipment which requires future minimum lease payments aggregating \$6,526,000.

Future minimum lease payments over the next five years are as follows:

	\$
1997	1,193
1998	1,223
1999	1,181
2000	1,139
2001	900

The Company has the option to acquire certain leased equipment in exchange for common shares if a public offering is completed in the United States.

TLC THE LASER CENTER INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1996

(\$ thousands)

1996

1995

14. INCOME TAX LOSS

The Company and its subsidiaries have non-capital losses carried forward for income tax purposes of approximately \$4,545,000, including current year's losses of approximately \$3,303,000, which are available to reduce taxable income of future years and expire as follows:

	Canada	United States	Total
	\$	\$	\$
2001	147	-	147
2002	1,095	-	1,095
2003	2,071	-	2,071
2011	-	1,232	1,232
	<u>3,313</u>	<u>1,232</u>	<u>4,545</u>

The Canadian losses can only be utilized by the source Company whereas the United States losses are utilized on a pooled basis. The current tax provision represents an income tax liability on approximately \$250,000 of taxable income of a Canadian subsidiary.

15. SEGMENTED INFORMATION

	Canada	United States	Inter-Segment Eliminations	Total	Total (see below)
	\$	\$	\$	\$	\$
Net revenues from operations					
Refractive clinics	7,879	149	(52)	7,976	4,592
Management fees	2,034	2,012	(2,659)	1,387	-
	<u>9,913</u>	<u>2,161</u>	<u>(2,711)</u>	<u>9,363</u>	<u>4,592</u>
Net loss for the year	(1,783)	(1,101)	-	(2,884)	(836)
Total assets	22,445	17,663	(15,602)	24,506	2,953
Amortization	535	340	-	875	344
Amortization included in start-up expenses	-	155	-	155	-
	<u>535</u>	<u>495</u>	<u>-</u>	<u>1,030</u>	<u>344</u>
Capital expenditures	1,104	14,793	-	15,897	1,369

During 1995, the Company conducted operations primarily in Canada.

The Company is an integrated provider of refractive surgery and other eye care services which is its only line of business and dominant industry segment.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

DIRECTORS AND OFFICERS

Elias Vamvakas, BSc (H), CHFC, has been the President and Chief Executive Officer since co-founding the Company in 1993, and is responsible for the overall operations of TLC. Mr. Vamvakas has a background in management and finance. He has been President of E.A. Vamvakas Insurance Agencies Limited since 1986, and was partner of Deneault, Vamvakas Management Consulting from 1983 to 1986, and President of the Creative Planning Financial Group of Companies from 1992 to 1994. Mr. Vamvakas is also Chairman of the Company's Board of Directors.

James R. Connacher, is a Director of the Company. Mr. Connacher is the Vice-Chairman of Gordon Capital Corporation. He was Chairman and Chief Executive Officer of Gordon Capital Corporation from 1978 to August 1994, and Chairman and Managing Partner from August 1994 to December 1995. Mr. Connacher is responsible for building Gordon Capital Corporation into a dominant force in Canada's equity business.

David C. Eldridge, OD, FAAO, is a Director of the Company and Chairman of the Advisory Council. Dr. Eldridge practices optometry and was the first private practice optometrist in the U.S. to perform laser surgeries. He served as President of the American Academy of Optometry, President of the Oklahoma Optometric Association (O.O.A.), member of the O.O.A. Board of Directors, Chairman of the O.O.A. Education Committee, Oklahoma "Optometrist of the Year" in 1993, and is a charter member of the O.O.A. Contact Lens Section.

Howard J. Gourwitz, JD, LL.M., is a Director of the Company and Chairman of the Audit Committee. Mr. Gourwitz received his Juris Doctor cum laude from Wayne State University in 1972 and received his Master of Laws in Taxation from New York University in 1973. He was admitted to the Michigan Bar and the U.S. Tax Court in 1973. Mr. Gourwitz specializes in the practice of personal and business tax law, estate and financial planning, corporate law and commercial planning, real estate and sports entertainment law. Since 1980, he has been a practice consultant for the Midwest Transaction Guide, a 14-volume set of books published by Matthew Bender & Company Incorporated.

Ronald J. Kelly, B.Comm. (Hons), LL.B, MBA, is a Director of the Company and a member of the Audit Committee. He attended Dalhousie University and received his joint LL.B/MBA degree in 1988. Mr. Kelly is a former adjunct Professor in contract law at the University of Western Ontario and is currently a partner in the law firm of Siskind, Cromarty, Ivey & Dowler in London, Ontario where he has practiced since 1991. Mr. Kelly practices corporate/commercial and intellectual property law, including computer software development and high technology.

Jeffery J. Machat, MD, FRCSC, DABO, is a Director and a co-founder of the Company. As National Medical Co-Director, Dr. Machat is also responsible for overseeing the clinical aspects of the Company and the training of doctors performing excimer laser procedures at TLC clinics. Dr. Machat received his Royal College of Canada Certification in Ophthalmology in 1990, and has performed over 7,000 PRK procedures. In addition to PRK, he has performed over 3,000 LASIK procedures. Dr. Machat has studied laser procedures in Canada, Europe and the U.S. and is certified by the American

Academy of Ophthalmology. He is a member of the American Society of Cataract and Refractive Surgeons, the Canadian Association of Photorefractive Surgeons and the International Society of Refractive Surgery. Dr. Machat lectures and publishes on excimer laser therapy, and recently completed a book on the topic.

John F. Riegert, CMC, CMA, CDP, is Director of the Company and its Corporate Secretary. Prior to joining TLC in June 1995, Mr. Riegert was the Chief Executive Officer of Crossroads Christian Communications Incorporated from 1992 to 1995, a private corporate consultant from 1991 to 1992, Vice-President and Secretary Treasurer of the Canadian Bankers' Association from 1969 to 1991, and a management consultant with Peat Marwick, Mitchell and Company from 1963 to 1969.

William David Sullins Jr., OD, DOS, FAAO, is a Director of the Company, Vice-Chairman of the Advisory Council and a member of the Audit Committee. Dr. Sullins' clinical and business experience includes the U.S. Navy Medical Service Corps, where, as a Rear Admiral, he held the highest rank ever for an optometric position in the U.S. Dr. Sullins is President and Chief of Clinical Services of a professional corporation, Athens Eye Care Clinic, P.C. He is Adjunct Professor, Southern College of Optometry and Past President and former Chairman of the Board of Trustees of the American Optometric Association. Dr. Sullins is a Director of First Franklin Bankshares, and of First National Bank and Trust Company. He is also the former Mayor of the City of Athens, Tennessee.

Ken B. Pelissero, BBA, CA, is Chief Financial Officer of the Company. From 1992 to 1996, Mr. Pelissero was the Chief Financial Officer of Crossroads Christian Communications Inc., an international television producer and broadcaster. Prior to that, Mr. Pelissero was a partner of a Chartered Accountants firm in St. Catharines, Ontario, joining the firm in 1979. Mr. Pelissero qualified as a Chartered Accountant (CA) in 1979 while employed with Coopers and Lybrand.

Madeline Diane Walker, was appointed Chief Operating Officer of the Company in 1996 and prior to that appointment she fulfilled various other positions relating to the operations of TLC since the Company was founded in 1993. As Chief Operating Officer, Mrs. Walker is responsible for assisting the President and Chief Executive Officer of the Company with the overall operations of the Company and for overseeing all aspects of the Company relating to human resources. Since 1990, she has been the President of Mainstay Human Resources Corporation, a management consulting corporation she controls.

Barry Barresi, PhD, OD, is an officer of Partner Provider Health Inc. Dr. Barresi is recognized in the United States as the leading academic authority on managed eye care and optometric/ophthalmic clinical service integration.

In 1995, Dr. Barresi was awarded the first endowed chair in health policy in the ophthalmic field at the New England College of Optometry in Boston. Dr. Barresi was also a founding member of The Edmonds Group which is one of the nation's premier managed and health care consulting firms.

A graduate of Holy Cross College (A.B.) and the New England College of Optometry (O.D.), Dr. Barresi completed his Ph.D. in public administration at the Wagner Graduate School of Public Service, specializing in health policy analysis and finance.

Laser Centers in Canada

BRITISH COLUMBIA

Vancouver

TLC Northwest-Vancouver

(604) 903-4000

Doreen McMorran

ONTARIO

London

TLC London

(519) 438-2020

Marion Baird

ONTARIO

Toronto

TLC Toronto

(416) 733-2020

Reg Forward

ONTARIO

Windsor

TLC Windsor

(519) 250-2020

Ellen-Jo Poisson

Laser Centers in the United States

CALIFORNIA

San Bernardino

TLC Inland Empire

(909) 982-8846

Dr. Robert Fabricant

COLORADO

Denver

TLC Rocky Mountain

(303) 329-9141

Dr. Jimmy Jackson

FLORIDA

North Miami

TLC Miami

(305) 868-7372

Dr. Maria Gonzalez

INDIANA

Indianapolis

TLC Indiana

(317) 845-2020

Dr. Perry Lopez

OKLAHOMA

Tulsa

TLC Tulsa

(918) 491-6009

Dr. Jeff Miller

SOUTH CAROLINA

Greenville

TLC Piedmont

(864) 297-6299

Dr. Cynthia Wike

WASHINGTON

Seattle

TLC Northwest-Seattle

(206) 771-1200

Dr. Beth Kneib

Secondary Eye Care Facilities in the United States

WASHINGTON

Seattle

TLC Northwest Eye Inc.

(206) 528-6000

Dave Williams

SOUTH CAROLINA

Greenville

TLC Piedmont

(864) 297-6299

Dr. Cynthia Wike

TLC Networks in the United States

INDIANA

Seymour

Dr. Mike Frische

KENTUCKY

Bowling Green

Dr. John Breiwa

KENTUCKY

Covington

Dr. Richard Schuck

KENTUCKY

Benton

Dr. Joe Ellis

NEVADA

Las Vegas

Dr. Tom Kroll

NEW MEXICO

Albuquerque

Dr. Craig Clatanoff

TENNESSEE

Nashville

Phil Christopherson

Corporate Information

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Transfer Agent

The R-M Trust Company
Tel: 1 800 387-0825

Legal Counsel

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Toronto, Ontario
U.S.
Arent Fox Kintner Plotkin & Kahn
Washington, D.C.

Auditors

Canada
Orenstein & Partners
A member of Horwath International
Toronto, Ontario
U.S.
Crowe Chizek and Company, LLP
Merrillville, Indiana

Stock Exchange Listing

Shares of the Corporation are listed on
the Toronto Stock Exchange

Trading Symbol

LZR

TLC The Laser Center Inc.
1996 10 Day Moving Average (April 8 to August 23)
The Toronto Stock Exchange



TLC trades under the symbol LZR on The Toronto Stock Exchange

"PRK will become like a rite of passage - braces at 10, a car at 16, PRK at 22 after college graduation."

Dr. Marguerite McDonald, MD
Eyecare Technology, May/June 1995

"Laser eye surgery's potential seems huge,"
The Wall Street Journal
August 24, 1995



TLC THE LASER CENTER INC.

"New laser procedure for nearsightedness is popular and lucrative."

The Washington Post
July 9, 1996

"Excimer laser treatment will generate nearly \$2 billion if only 1% of nearsighted Americans opt for the procedure."

Irving J. Jacobs Industry And Finance, January 15, 1996